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INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

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- Secrets of a sales superstar
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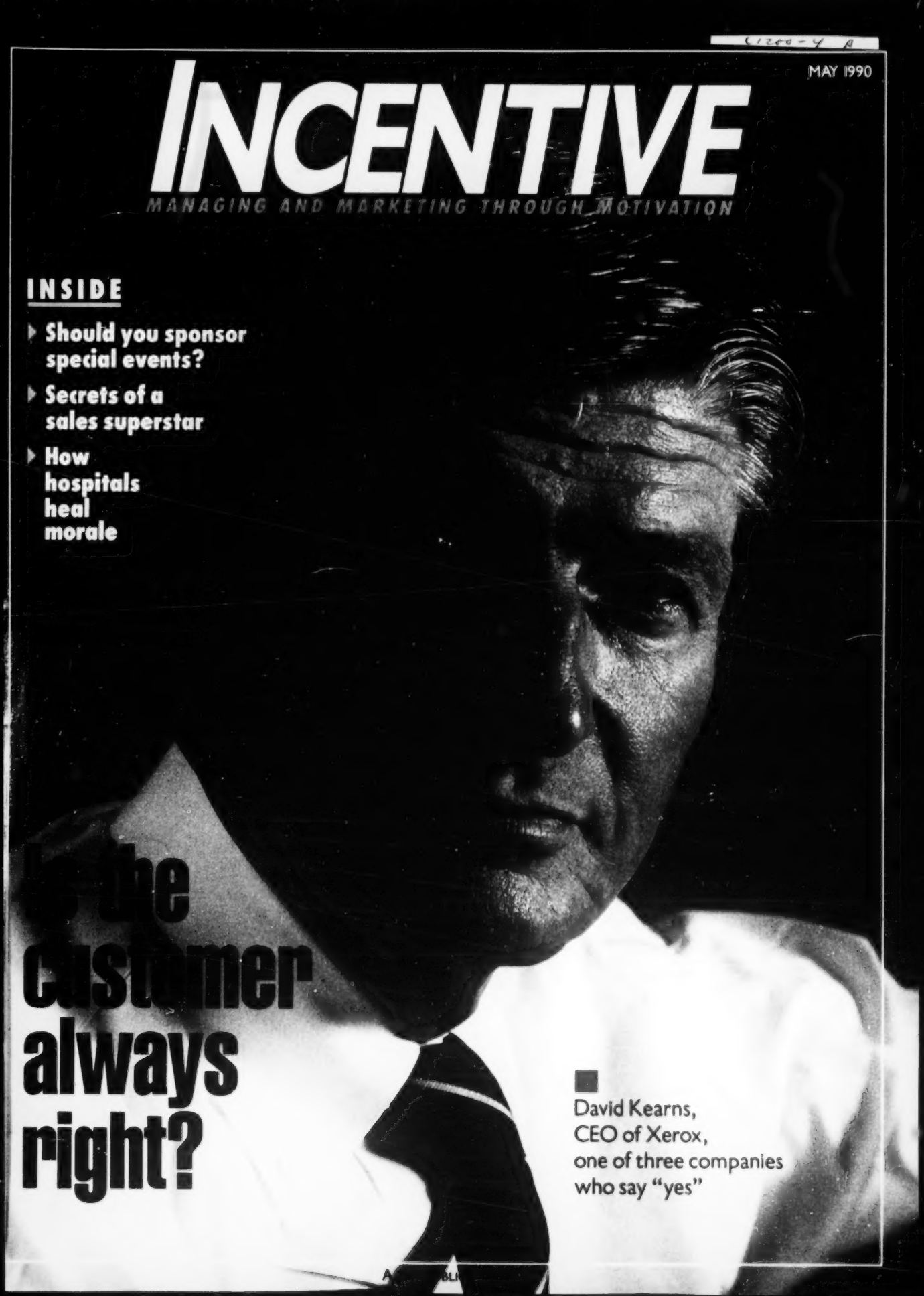

Is the customer always right?

David Kearns, CEO of Xerox, one of three companies who say "yes"

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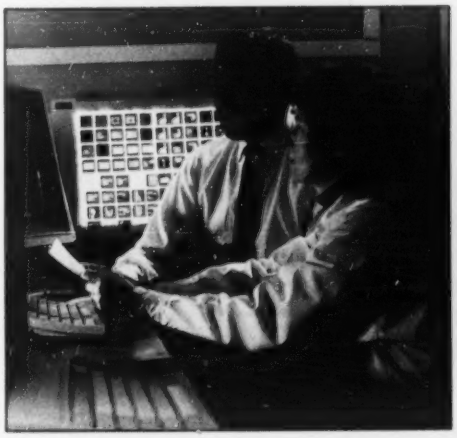

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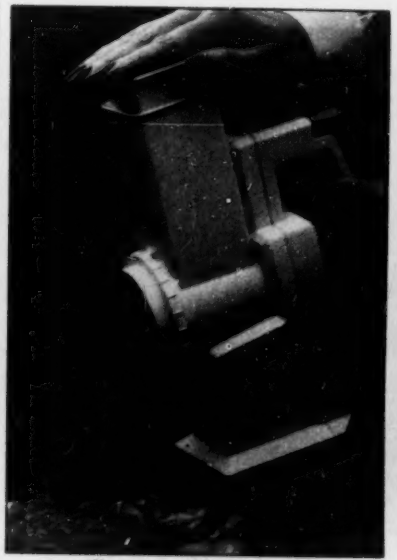

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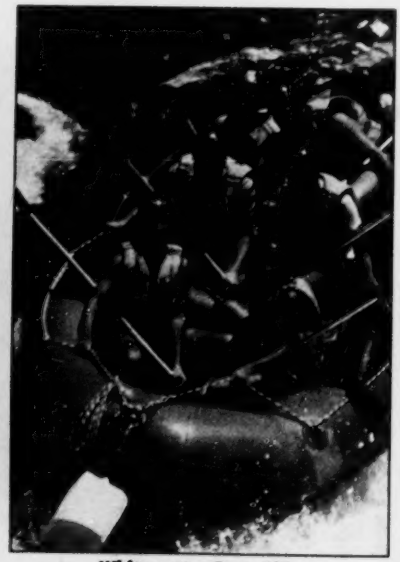

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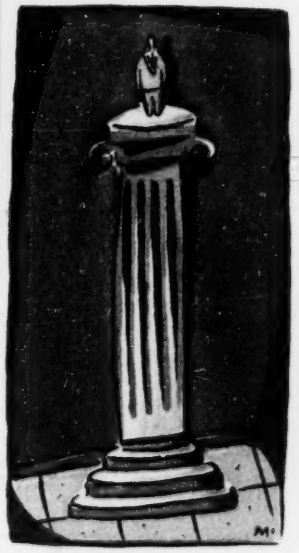
Is the customer always right?

If U.S. firms want to compete in the 90's, the answer had better be "yes." Here, a look at three companies who are leading the way.

BY ERIKA PENZER

Lose your customer focus, and you lose your competitive edge. So say customer service experts. As products and services proliferate, and as the options for consumers continue to blend and blur, companies will have to turn to exceptional service to distance themselves from the rest of the pack. "It's a matter of survival," says Larry Durham, president of the International Customer Service Association. "When the European market consolidates, American business is going to be challenged from all sides. The only way we're going to be able to compete globally is to be obsessed with satisfying customers."

The three companies profiled here—Xerox, L.L. Bean and Marriott—embrace true customer-centered cultures. Each lives by an omnipresent corporate philosophy and imbues it in its workforce. Each has adopted a total quality process in which customer satisfaction takes the number-one priority. Each has top management committed to total customer satisfaction, even at the expense of the short-term bottom line. Each listens to customers, shaping products and services to meet customers' needs. And each encourages and empowers employees to solve customers' problems on the spot—then rewards employees for doing so.



MARK MATCHO

While none of these organizations can claim total customer satisfaction, each has seen a marked difference since adopting a formal customer focus. Every company—large or small, public or private, manufacturing or service—can learn from their examples.

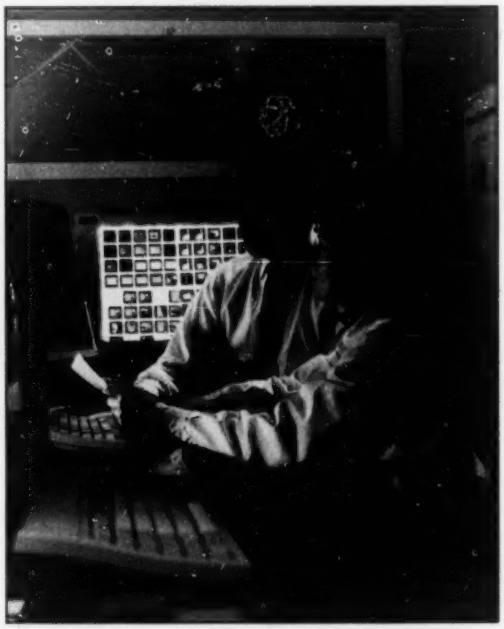
Unfortunately, these three companies still seem to be the exception rather than the rule. Many U.S. companies are far from customer-driven. The ideas are there, but actions have yet to follow, agree observers. "A lot of companies are talking about it and touting their stellar service in their advertising, but not many organizations are really making changes," says Ron Zemke, president of Performance Research Associates in Minneapolis and author of several books on customer service.

Agrees Tony Goland, senior engagement manager at New York-based management

consulting firm McKinsey and Company, "Only a small percentage of American business is truly customer-focused—but it's a growing percentage." And Frank Petro, vice president for the information systems group of New York-based management consultants Booz, Allen & Hamilton, says that although about 10 percent of Fortune 1000 companies are cited for their service, only about half of those are using emerging technology to enhance their service. "Without incorporating technology, companies can't expect to be competitive," Petro says.

So what's in it for companies who choose to jump on the customer-service bandwagon? Increased customer loyalty, for one thing: According to data collected by Washington-based Technical Assistance Research Programs (TARP), for every five customers who have a problem, one customer will never purchase that product or service again.

Another (and, some think, more important) benefit? High employee morale. Most customer-conscious companies—particularly these three—take a great deal of care of their own workforce. "[The original] Mr. Marriott's philosophy was, 'If you take good care of your own people, they'll take good care of your customers,' " says one Marriott employee. □



President Paul Allaire troubleshoots with a computer programmer.

XEROX

Defying Wall Street

In the early 1980's, Xerox was in sad shape. Japanese copier manufacturers were putting out pretty good machines "at prices below our cost—we couldn't believe it," says chairman and CEO David Kearns. The company's market share dipped to an all-time low of less than 50 percent (it was nearly 100 percent throughout the 1970's), and profits were plunging. Where to turn?

Kearns, inspired by a trip to Japan and meetings with quality guru W. Edwards Deming, decided to take the company on a quality-driven detour—a bumpy route where customer satisfaction became the center of attention, managers swapped the practice of giving orders for one of making suggestions, and employees took action rather than watched it. It was a daring move for a firm so entrenched in traditional top-down management techniques.

At the beginning, it wasn't an easy transition. In fact, in 1983 Kearns and his henchmen were just about the only people who believed in their mission completely. "Our top 25 people were committed to the quality process and were assigned to work on it—but our employees were still skeptical. It took years to train all our employees in the quality process," says Kearns.

The financial community was equally doubtful: "They wanted results, and at the beginning we didn't have them," Kearns says. "The analysts didn't really understand the process—nor its financial implications—because they weren't involved in the day-to-day operations of the company."

For Xerox employees, reaching the company's current stage hasn't been painless, either. "Initially, it was difficult. It's a very disciplined process, this quality thing," comments Marianne Nahin, national account sales manager for the West Coast. "At the beginning it took a lot more time to do business. But now that the customer focus is ingrained in us, I find that everything I do focuses around it."

Now, seven years later, the corporate philosophy that places customer satisfaction above profits has pervaded nearly every corner of the company. "You can't forget it; it's everywhere," says Nahin. "When you walk into a meeting, it's posted there on the wall. Everything we do is

Kearns took Xerox on a quality-driven detour—a bumpy route where customer satisfaction became the center of attention, managers swapped the practice of giving orders for one of making suggestions, and employees took action rather than watched it.

completely customer-oriented."

With the company's customer satisfaction measurement system firmly in place, Kearns—and Wall Street—can point to specific improvements: The company's primary earnings per share have risen steadily over the past five years, to $6.56 in 1989 from $4.38 in 1985. Recently, though, skies turned cloudy when—simultaneously, it seemed—stock prices dipped and Kearns announced that he will step down as CEO on August 1 and hand the reins to now-president Paul A. Allaire.

"Kearns has been very successful in improving quality on the company's manufacturing side," says Prudential Bache analyst Alex Henderson. "But he's also had trouble breaking Xerox's huge bureaucracy and getting new products out of the lab and into the market." The financial community expects Allaire to cut costs aggressively, Henderson says. Will major cutbacks affect the company's customer service? Henderson doubts it. "I think he'll start by trimming management. Xerox still has at least two extra layers of middle management."

Since installing its quality improvement process, Xerox has learned to listen hard to its customers. The company's Customer Satisfaction Measurement System (CSMS) polls buyers randomly, querying about issues like sales reps' response, service reps' performance, administrative support, billing accuracy and phone encounters. Nahin's group of West Coast sales managers gets these surveys back several times a year and can see exactly where its performance is lacking. "When we get a report back that shows a particular area is weak, we can then ask for a more detailed survey to be done concentrating on that one thing," Nahin explains. These specific reports are then used to target the exact source of the customers' gripe. Anyone, from Nahin herself to district office staffers, can request these detailed reports.

Nahin's group shoots for a 92 percent satisfaction rate, and Nahin contends that the goal is nothing to sneeze at. "That includes our customers' every interaction with the company," she says. But another Xeroid (company employees say it's an affectionate term) disagrees: "If only 92 percent of my customers are happy, that means 8 percent aren't. That's too many."

Ninety-two percent is a target for Nahin's group—some accounts are way above it, and some fall below. For those accounts that don't make the grade, "we put an action plan in place quarterly to try to bring the level up," Nahin says. An action plan might include administering additional surveys, making field visits with the sales rep and his or her manager, and writing letters to the customer identifying the critical areas where the company needs to improve. In some cases, the sales managers hold problem-solving sessions with customers, or form quality improvement teams that include representatives from both Xerox and the customer's firm. In the West, "we've had at least one such team in each account for the past few years," Nahin says.

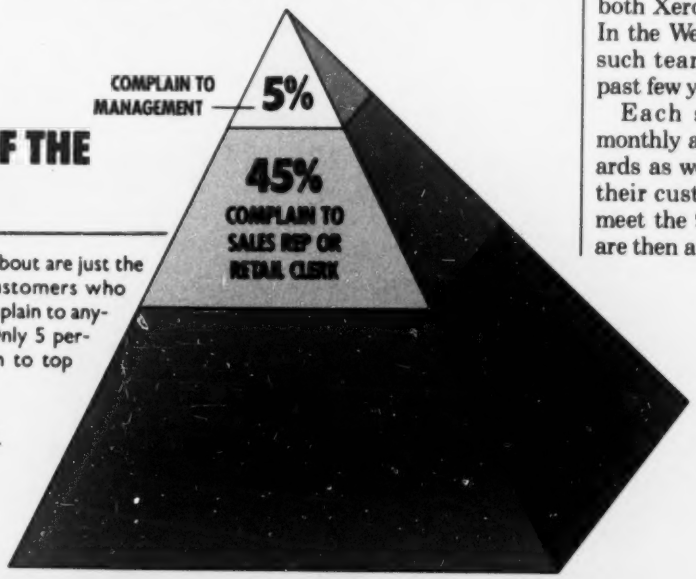
Each sales rep is measured monthly against rigid service standards as well as financial markers. If their customer satisfaction ratings meet the 92 percent goal, sales reps are then asked to surpass that for the following month. Sales reps and their managers also meet monthly for "outlook" sessions, where they discuss customer meetings and their outcomes, local company issues, and global trends within the corporation.

In the past, these global discussions have

THE TIP OF THE ICEBERG

The problems you hear about are just the beginning. Half your customers who have problems never complain to anyone at your company. Only 5 percent report the problem to top management.

Source: TARP, Washington, D.C.



One Xerox sales rep says the biggest change he's seen is in the support he gets from management. Customer-service policies that once were scoffed at now are endorsed.

pointed out, for example, that customers in state government offices (Nahin's area serves several) needed smaller copiers that were cost-competitive with Japanese models. Partly because of communications with the major account organization in Rochester (which handles product marketing, promotions and pricing, as well as global suggestions), the company has been able to expand its small-copier line from one machine several years ago to four or five models today.

For Leo Kelly, senior sales executive for the Coastal region's Philadelphia district, the biggest change has been in the support he gets from management. "I haven't changed the way I do business all that much—I was always following up, anticipating my customers' needs and questions, because for me a happy customer was someone who was going to buy from me again," he explains. "But I used to feel a corporate insensitivity to my customer policies. They'd say, 'That's only a small sale, why bother going out of your way?' But now every customer, every sale, every issue is important. My customer policies are endorsed, blessed, by the company."

Nahin agrees. "Everyone feels now like they've got a lot of input," she says. "We're much more empowered. Whereas before we had to go through a long chain of command, now we can make decisions that satisfy smaller problems, make accommodations, negotiate contracts locally. That flexibility has enhanced our ability to do business." In fact, empowerment is a company buzzword: "You have to give every employee power," states Kearns.

Motivating all employees to provide top-notch service in a huge organization like Xerox is no small task, and one the company continues to grapple with. Though recognition awards—plaques, medallions, and framed letters—are common, tangible rewards are less so. "We're working on a gainsharing plan—it's not far along yet, but we're working on it," Kearns says. "We're also working on measuring each individual's job, and when we can do that, we'll have a basis on which to reward each and every employee." That time still is several years away, however, Kearns notes.

But groups within the firm often take it upon themselves to amplify the corporate reward strategies, says Nahin. "My counterpart in San Francisco had a bank contract that involved a tremendous amount of administrative support, and the people did a phenomenal job. They were rewarded with a day-long trip through the wine country, with a gourmet lunch and several wine tastings." Nahin claims her group is trying to do more things like this to show non-sales personnel its appreciation; she writes letters of appreciation and sends copies to supervisors, takes people to lunch and buys Christmas presents out of her own pocket.

Xerox also is tackling the discrepancy between spurring salespeople with exotic trips and high-tech merchandise while offering non-sales personnel little more than a pat on the back. Kearns concedes that the reward gap between sales and nonsales bothers him; Nahin admits it's been an issue in her area as well. And with good reason: "If you're giving color TV's to salespeople for hitting quotas and you're giving lapel pins for good service, you're telling your employees what's really important," says TARP's president John Goodman.

Several years ago, an executive at a large international bank was explaining to Goodman that sales and service were equally important in his organization; in the next sentence, he said that salespeople were rewarded with expensive merchandise and good service earned a small plaque. "He caught himself and stopped short in the middle of a sentence—he realized he sounded ridiculous," Goodman laughs.

But how much have things *really* changed beyond Xerox's executive offices? "Not as much as I'd like," says Kelly. "We do have 'exception to policy,' where we can try to adjust to solve a customer's particular problem. Local management can do certain things. But for the important things—adjusting the length of a contract or issuing more machines, for example—you still have to check with Rochester [one of the company's bases of operations]. For example, I had a customer who needed a machine changed to another model, a slightly more expensive one. It was just a small dollar figure, but I still had to check with Rochester before I could give it to them."

Kelly feels people at the district level need still more autonomy to be able to serve their customers 100 percent. "We have to get good strong people in district management and give them more freedom," he says. "I know it's in the making, but it's not enough yet. What it gets down to now is how well you can write your problem up for Rochester. If the power were in the district, you could take your manager out and show him the problem yourself. There's not a salesman in the world who wouldn't like to be able to walk into a client's office and sell him a solution on the spot. I'd like to be able to take a crack at it myself instead of having to explain it to another manager."

Even Kearns concedes that in a company the size of Xerox, things can't change overnight. "When we first started, it took several years for our employees to start to be convinced that we were really dedicated

to this idea," he says. "But our ideal is to drive the decision-making power down as far as possible, so that on a district level our people can do whatever it takes to make their customers satisfied."

Humility often marks the quality-driven organization, and Xerox is no exception. "We've come a long way, but we still have a long way to go," says Kearns. "Winning the Malcolm Baldrige National Quality Award was invigorating, but the Baldrige committee also suggested 500 areas where we could improve." Those areas have been divided among senior management, and a second five-year plan has been laid for the 90's. □

■ L.L. BEAN

Tradition In Transition

In a sense, L.L. Bean is a very lucky company. "We've always had a strong customer focus—it came down straight from L.L. himself," says Susan Zimmerman, director of customer service. "When he designed his original hunting boots, he wanted his customers to have something that would really work. He was personally invested in his product and he stood by it."

Executive vice president Bill End agrees. "We haven't had to change our corporate culture at all to meet the '90's," he says. "Companies that are bottom-line focused—financial companies, for example—have the biggest transition to make, and have a much harder time instilling the customer focus."

Zimmerman teaches her service representatives—300 people who handle customers' problems via phone or letter—that their strongest tool in dealing with customers is the company's no-questions-asked guarantee. L.L. Bean will replace any product the customer feels hasn't performed up to snuff, no matter how long ago it was purchased.

But according to recent estimates, this tried-and-true policy has cost the company a bundle. L.L. Bean customers returned $82 million worth of merchandise in 1988—that's $2 million in shipping charges alone—and these figures were up significantly from the year before. Says Bill Shea, vice president of retail sales, "The problem was our methodology. Our customer service policy was *re*active; we'd do almost anything to fix a situation gone wrong. What we didn't realize was that we had to find a way not to let things go wrong in the first place."

L.L. Bean applied for the Baldrige award in 1988, and though the company didn't win, the Baldrige team pointed out some important kinks in Bean's procedures. "What we realized was that even though we were a customer satisfaction company, we weren't getting our own people involved enough," Shea admits. "The employee component was missing. We were too much of a top-down organization and didn't have enough bottom-up communication or involvement."

Since the Baldrige evaluation, Bean has attacked the total quality process with vigor. Top management has been trained in the quality dogma, working with Harvard professor and quality guru David Garvin. The next step, says Shea, is implementing a quality training program for middle managers, and ultimately all salaried and hourly workers will be trained as well.

Taking advantage of its human resources has proved a substantial task for Bean. "The reason we didn't win the award was that we didn't understand the role of the internal customer," Shea says. "We weren't working together as much as we could." Agrees End: "We've had 75 years of good external customer service, but our biggest change is developing a stellar internal customer focus. I'm looking more internally, seeing where I get information, where I send it, making sure we have the most efficient ways of operating."

The internal customer focus has trickled down several levels. Senior manager of product quality Lou Zambello explains that until recently, his department oversaw six or eight groups involved in product quality. The problem was that none of the groups knew what the others were up to. "The company had expanded so fast and added so many new products over the past five years that we just added a group here and a group there, without integrating them," he says. "We were working so hard independently that we lost sight of what the customer expected from our products. Everyone wanted to do the best job they could, but they didn't have the mechanism."

Now, Zambello has integrated and streamlined the company's quality

L.L. Bean's return policy cost the company $82 million in 1988. The problem? Reactive, rather than preventive, service.

efforts. The product quality groups meet monthly to discuss their progress, and there is a monthly newsletter that reports on product quality issues. In addition, Zambello designed a formal system to feed workers' questions back to the product quality department. "We used to be able to chat about these issues over lunch," Zambello remembers. "But now, with multiple locations and hundreds more employees, we don't have that luxury. We had to find a more formalized way to keep each other informed." Fortunately, he adds, Bean's workers really seem to care about improving the company's products: "They just needed a mechanism to turn their motivation into action."

Tapping the potential of its employees is a challenge Bean is meeting by empowering them to do more. "While we've always used quality circles, they used to be strictly recommendation groups," says Shea. "From now on, they're going to be implementation groups—they'll have full power to carry out the suggestions they're coming up with." Other employee groups are working to evaluate internal customer relationships, reduce return rates, improve response time and forge vendor relationships.

Bean can't satisfy its customers without the help of its suppliers, Zambello points out, so the company has involved its vendors in the quality process as well. There are exchanges where suppliers' inspectors visit Bean's facilities and Bean employees tour vendors' operations. Vendors receive the monthly quality newsletter, as well. Are suppliers receptive to Bean's new-found total quality spirit? "Some are and some aren't," Zambello says. "Some were heading in that direction themselves, and some don't see it at all. But over time, we're going to work with the vendors who are closest to our philosophy."

Each area—retail, mail-order and manufacturing—has its own reward and recognition system, and the internal customer-satisfaction theme is included in more than one place. The retail store has created a monthly internal customer award, given to the person who has done the best job of supporting his or her internal customers. Winners, who are nominated by their peers, get a glowing letter placed in their personnel file, lunch with their manager, $100 and a coveted reserved parking place for the month.

Zimmerman's department bestows monthly spirit awards on "the person who makes us glad to be working here," Zimmerman says. The department hangs a huge banner with that person's name on it, and he or she gets a small version of the banner to hang in their work station.

But employee involvement is only half the battle; customer input is the other half. To kick off the quality drive, Bean held a series of customer focus groups throughout the country

THE ESSENTIAL ELEMENTS

When is a company truly customer-focused? When it meets most of these guidelines:

Customers say they're satisfied. If the customer says his or her experience isn't good, the company is doing something wrong, says customer service expert Ron Zemke. Though this sounds simplistic, most companies don't put enough weight on the individual's experience, Zemke says; they tend to think in terms of averages and percentages. Remember that a 95 percent satisfaction rate means that five percent of all customers walk away unhappy.

Employees become problem-solvers. At Marriott, bellboys can change guests' rooms; at Xerox, district managers can renegotiate contracts; at L.L. Bean, phone reps can exchange any item for any reason. "Whatever it takes to make the customer happy, employees should be able to do it and know their manager will support them," says John Goodman of Technical Assistance Research Programs.

Top management sets a good example. If employees don't see management going the extra mile for customers, they won't either, says Zemke.

Customer-service employees have room to grow. If the customer-contact people are stuck on the bottom rungs and there's no career path for them, the message is clear: Service isn't respected.

Employees are rewarded for taking risks. If the only reward is a pat on the back, points out Zemke, the company's commitment and sincerity comes into question. Valuable rewards—putting your money where your mouth is—make it clear you're taking the service issue seriously.

Middle management's role is redefined. Traditionally, middle managers held employees to rigid company policies, but in the visionary customer-focused company, says McKinsey and Company's Tony Goland, middle managers are coaches and facilitators, not controlling taskmasters.

Internal customers are equally important. When the organization takes care of its own, it's that much more prepared to deal efficiently with outside customers.

The company's leader is dedicated, visible and active. Without the support and involvement of top management, agree the experts, no quality drive or customer-focused culture can survive. □

Before embracing the total quality process, Bean had six or seven quality-improvement groups—but none knew what the others were doing.

last fall. The company interviewed 300 current and prospective customers to find out what people did—and didn't—like about Bean's business. "Every company thinks it knows what its customers think is important," Shea says. "But we wanted to start from scratch, to find out exactly what they do want. We were looking for the niches, the competitive advantages, that will give us the opportunity to improve our service."

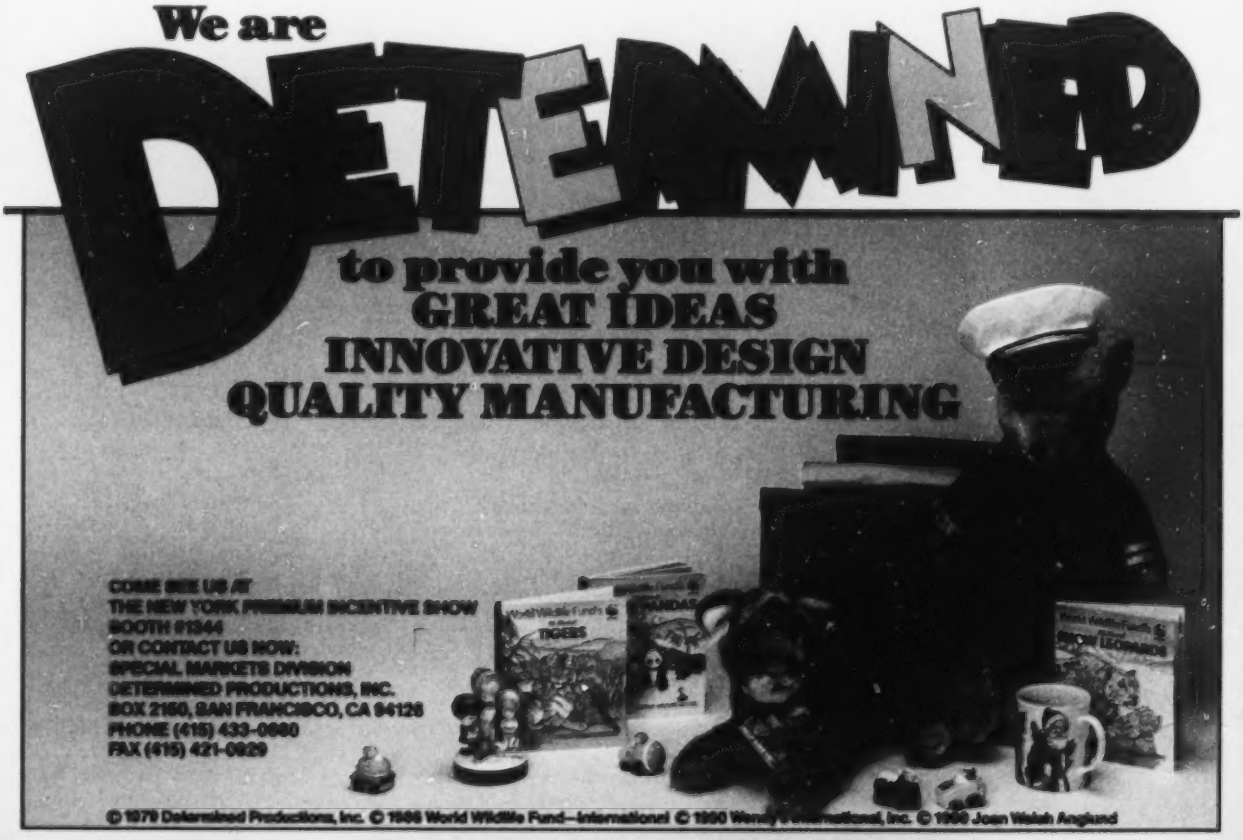
Though most of the results are confidential, Shea does say that customers really liked Bean's sense of tradition and the way it stands behind its products. The company's free shipping policy, too, scored high. The down side? Customers noted that the catalogue's size chart needed an update for today's fuller-cut fashions, and that because of the way items were shown, colors and their names often were hard to match up. These changes were relatively easy to make, and have saved the company considerable amounts on returns. "When we focused on certain products, we found we were able to cut their return rate in half," Shea claims.

The company listens to customers when deciding how to recognize its own employees, too. Zimmerman cites a letter from a customer in the Charleston, S.C., area that lauded an employee who had gone to great lengths to get lamps and other necessities to Charleston just after Hurricane Hugo. "The post office couldn't deliver it and UPS couldn't get there, but the employee kept trying and finally got it there via Federal Express," Zimmerman says. "The letter praised her efficient handling of a difficult situation as well as her creativity, follow-through and empathy."

Though there are no formal rewards in place right now for such deeds, Zimmerman hopes to institute a more extensive reward policy. "We want our people to feel free to take risks, and we have to reward and recognize them for taking risks."

Zimmerman also wants her employees to feel they have the authority to solve any problem. If they are unsure how to proceed, they can confer with a supervisor, "but it isn't necessary," Zimmerman stresses. "The only time they need to check with higher-ups is when they think they have to say no to a customer."

In the ever-more-competitive world of catalogue retailing, Bean's challenge is to keep its prices competitive while maintaining its traditional—but expensive—customer policies. "There are two ways we can continue to keep everyone happy," explains Shea. "One, we can raise prices, be-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cause we've found that people are willing to pay more for better service. But we can also reduce our expenses through improved productivity. Higher quality means fewer mistakes, which means lower costs."

For 1990-91, Bean's emphasis is going to be on increasing profitability by doing things right the first time, says Shea. But rooting the quality process firmly in the company will take time and involve a significant amount of change. End notes that thus far, Bean has only trained top management, so it's hard to predict how all employees will react to the new focus.

Will the quality drive change the company's personality? "Only for the better," End says, "because we'll be creating far fewer problems and ultimately our customers will be much happier." And Shea hopes Bean will be ready to apply for the Baldrige award again—and win—sometime in the mid-90's. □

MARRIOTT

People Power

Marriott's greatest success, says TARP's Goodman, has been in empowering employees to solve customers' problems. An example: About to leave the Marriott in Toronto for the airport, Goodman was told he'd just missed the hotel's airport van. The next one wasn't for half an hour, and Goodman was afraid he'd miss his plane. The bellboy carrying Goodman's bag went to the garage, found the keys to the hotel's other van, and drove Goodman himself. "They've taught their employees to throw away the policy manual and do whatever it takes to solve the problem," says Goodman.

In the hospitality industry, where a large number of workers deal constantly with customers, "a customer-centered company must have front-line employees who have the power—and know they have the power—to satisfy customers at the moment of the transaction," says McKinsey's Goland. "They need to know they're going to get supported from above, rather than criticized for stepping out of line."

As in any large organization, some areas of the company are further along than others. Convincing employees they *can* make decisions on their own proved problematic in several of the company's European and Middle Eastern properties, notes Jill Bausch, regional director of marketing communications for Europe, the Middle East and Africa. "In Eastern Europe, workers say to their managers, 'I'm not getting paid to make these decisions—you are. I don't have to think this hard.' "

"Empowerment is an evolutionary process," comments Rick Goldstein, Marriott's director of training and organization development. "There are some managers resisting it, too—they've worked hard to come up through the ranks and just at the point where they had some power, we're spreading the power among the lower staffers. They're resentful."

Though he feels the majority of Marriott's managers support the direction of the corporate philosophy, Goldstein says that many struggle with how to implement that philosophy; not every hotel's bellboys would take it upon themselves to drive a guest to the airport. But all the hotels are working towards giving associates more decision-making authority. Goldstein, for instance, is in the midst of developing a training program to help managers empower their employees and make managers more comfortable in a coaching and guiding—rather than dictating and judging—role.

Marriott defines "customer focus" comprehensively: "Make sure everyone in the organization focuses on both their internal and their external customers," says John Herold, senior vice president for Marriott Hotels and Resorts.

In the hospitality industry, where customers might deal with ten front-line employees in a single day (and judge the hotel's service on any one of those dealings), employees have to be completely dedicated to the customer service doctrine. For Marriott, that means finding the right kind of people—people who buy into the company's customer commitment. "We

Though most of Marriott's managers support the company's employee-empowerment philosophy, many struggle with its implementation.

interview 15 people for every one we hire," says Herold.

At some locations it's harder to find qualified people, concurs Goldstein, who says the company received more than 3,000 applications when it was staffing the Marriott Marquis in New York. "We encourage our human resources people to be patient, to keep looking rather than hire someone who isn't perfect. In New York, we ultimately found people who met our standards, and they're much friendlier than typical New York hotel employees."

Once Marriott finds the right people, it puts them through an extensive training program. Managers first saturate front-line people with the company's customer-first philosophy, then play out typical interactions and ask the new people to step in with solutions. "We talk about how to greet people, what to do if there's a problem, and how to service people's needs in a hotel," Goldstein explains.

In the past year, the company has refocused its approach around the total quality improvement process, applying manufacturing techniques to its service approach. Isn't measuring service encounters far more difficult than manufacturing processes? Yes, says Goldstein, but the company is committed to learning to do it. "There aren't a lot of service companies out there who are measuring service to the extent we are, so we're having to invent the methods on our own. We're borrowing techniques from manufacturing companies, and we'll have to share secrets with other service companies."

Marriott associates are recognized differently at each hotel for outstanding service; each hotel's management decides how to laud the property's employees. Associates' pictures are posted on bulletin boards at some hotels. Employees who have instituted a new procedure often are videotaped at work, and the tape is circulated to other properties who might benefit from the shared knowledge. Workers sometimes win free stays at other hotels, dinners for two, even turkeys at holiday times.

It's even more important for Marriott to instill and reinforce the customer focus in their general managers. By the time a person gets to the general manager level, the customer culture is pretty much ingrained, says Herold, since 60 percent of Marriott's general managers started with the company as hourly employees: "They're products of our culture," he adds. In addition, managers are rated and compensated based on results of customer service and employee attitude surveys, as well as their property's revenues and profits. □

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FACTS SURVEY
Consumer Incentives

Consumer promotions are on the upswing. According to **Incentive**'s most recent survey of 102 companies, 1990 will be a year of increased consumer promotional activity and spending.

In fact, based on their current plans, companies intend to spend 15.3 percent more on consumer incentives than they did last year. In 1989, companies spent $6.1 billion, a 7 percent rise over the 1988 figure.

Perhaps the acceleration in activity is best reflected in mail-in promotions, which hit a median of four campaigns a year, compared to three a year ago. Respondents also indicated they are budgeting more for 1990—as much as 16.8 percent more for mail-in offers than they spent in all of 1989.

Incentive marketers predict a whir of activity on the promotional front.

The same goes for direct premium promotions. While the median has not changed—it remains at four programs a year—spending estimates amount to 13.7 percent more than the dollars laid out a year ago.

Last year saw high levels of consumer promotion in a number of areas. Four industries added hefty amounts to their budgets: Auto parts, tires & accessories rose by 8.3 percent; feed, fertilizer & farm supplies by 11.3 percent; toiletries & cosmetics, 9.9 percent; and retailers, 8.8 percent.

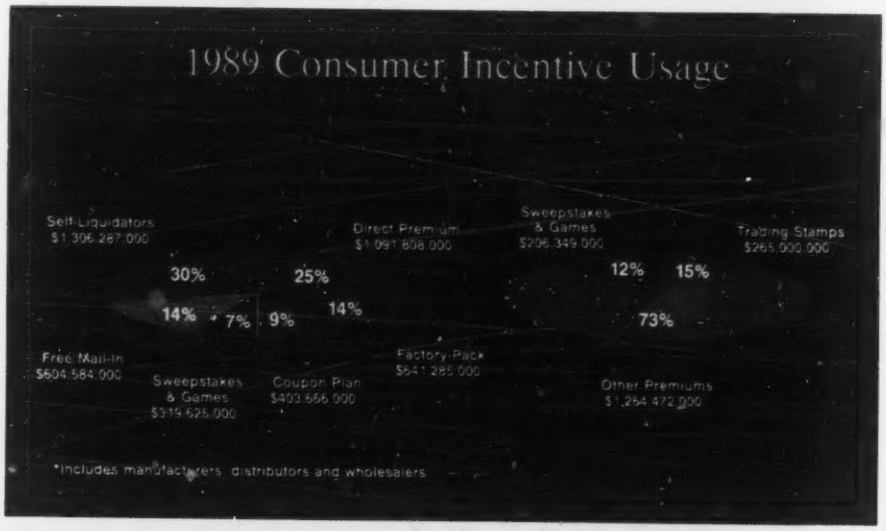
But food products, which account for 37 percent of all product-promotion dollars, added only 3.9 percent. And eight industries—all small users, but important in the aggregate—decreased their consumer promotion spending. The laggards were electrical and lighting equipment; apparel; farm equipment; hardware; housewares and home furnishings; machinery and supplies; paints and varnishes, and sporting goods & toys.

Consumer promotion rarely occurs in a vacuum, and increased activity in this realm reflects a similar pace on other fronts. Survey respondents told **Incentive** that they are planning to spend 18.9 percent more for dealer incentives and 21.5 percent more for sales incentives than they did last year.

These forecasts come from a small sample of users, and they are formed early in the year when there is still time to change plans. In the overall survey, all year-to-year comparisons are derived from budget figures provided by the respondents.

The mail-in category remains a favorite approach, while self-liquidators are seen rising faster (16.5 percent more dollars) than free mail-in offers (13.7). But sweepstakes, contests and games are areas where these marketers predict the greatest expansion, by 25.9 percent over last year's spending.

What will all this activity yield in measurable sales increases for these marketers? Measuring consumer sales



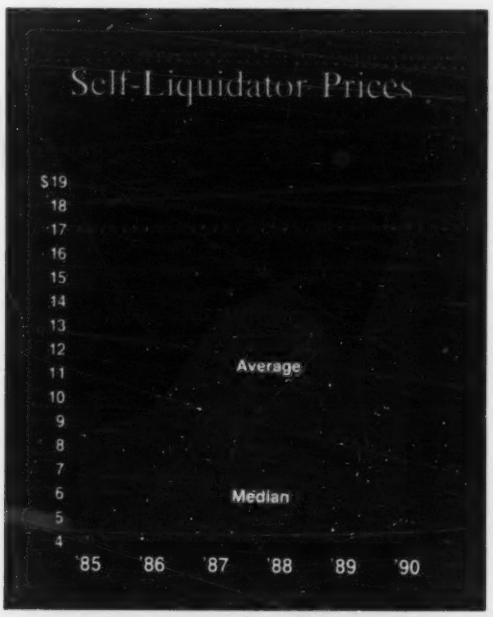
Several industries expect strong growth in consumer promotions this year. Among them: auto parts, feed, toiletries and cosmetics.

results tends to be more difficult than gauging the success of a trade incentive program. But many users did make consistent estimates. Over a number of years, these surveys have shown results most often in the 18 to 20 percent range. An exception was 1988, when the average dropped to a disappointing 16.1 percent; last year saw a comeback to 19 percent. In this year's study, results slid a bit, to 18.1 percent. Overall, marketers' predictions ranged from 1 to 50 percent, with a median of 15 percent.

In other survey results, color pages in national media offering premiums and sweepstakes from grocery-product marketers remain the most visible face of consumer incentives. As the surveys consistently show, however, other methods have their champions as well. The most common medium of advertising premiums and sweeps is direct mail, chosen by 61 percent of respondents this year. Point-of-purchase displays—usually second in rank—slipped to third this year, used by 29 percent. Second choice now is newspapers, favored by 33 percent of the executives polled. Trade publications are used by 22 percent; TV and radio by 20 percent; on-package advertising, 14; consumer magazines, 8; Sunday supplements, 4, and other unspecified media, 10 percent. Overall, respondents reach their markets through an average of two media types per company.

Users of point-of-purchase materials often consider incentive promotions a great way to increase retailers' acceptance and use of displays. In the most recent survey, respondents indicated they normally expect dealers to use their materials in 32 percent of cases—but they report an average increase of 27 percent in display use during a premium offer or sweepstakes.

These users say direct premiums and sweepstakes are the most effective ways to get displays used. (*See chart, page 64.*) In fact, respondents tend to favor the direct premium to achieve more objectives than any other promotion. Self-liquidators, which are slightly ahead of direct premiums in dollar expenditure, are rated "worst" in most categories. The self-liquidator's relative low cost appears to be its greatest virtue and the reason for its popularity.



Not too long ago, gospel held that the self-liquidator was highly effective in encouraging product sampling. More recently, companies have moved away from using self-liquidators for this purpose, a change attributable in part to the rise of the free mail-in offer, which this year's respondents rank second as a sampling device. Reason: Free mail-ins can induce product trial without asking consumers to pay for anything other than the product itself. The free mail-in offer carried the vote in this year's survey—by 43 percent who consider it best for sampling. The self-liquidator received the least support for that objective.

Free offers also are judged strongest in gaining ad readership—once considered another strength of the self-liquidator.

No such thing as a panacea premium exists, of course. The free mail-in will help get most advertising read and induce a prospect to try the product. But it remains, as these users point out, a dismal failure in gaining attention on store shelves, giving the sales force something to talk about or building good will with present customers.

Despite what may be a somewhat cynical view of their value, self-liquidators remain an important segment of the consumer premium field. The average self-liquidator price quoted is $18.80, compared with $11.64 in the 1989 survey. The median figure hit $8.95, up from $6.95 last year. But these higher prices cover a smaller portion of the promotion's actual cost. Last year they covered only an average of 55 percent, versus 80 percent reported in the earlier survey.

When regarding self-liquidator offering prices, the recurring question arises: "How high is too high?" The survey asked users at what price point they believe response will drop significantly. The average number was $65.80, compared with last year's $54.22. The median, however, landed at a more modest number—$20, up from $17.50. The executives' answers ranged from $5 to $250.

The perception of retail value clearly has an effect on the price consumers will pay, and a majority of

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At what price is a self-liquidator too steep? Marketers tag the figure at $65.80, versus $54.22 a year ago.

users still feel it is important to show a claimed retail value for the offered item. This remains the practice of 57 percent now, down from the 62 percent doing so last year.

If these companies' experience is a gauge, then the questionable practice of charging the consumer extra for "postage and handling" of premiums may be waning. Only 34.5 percent of these marketers said they use this additional charge, down from 41.5 percent a year ago.

When selecting the item, 65 percent of surveyed users prefer that the premium be "related in use" to the offering product; last time, 56 percent held that view. The question of "relation" can be interpreted flexibly, however: A theme relationship or a deft play on words is just as likely to tie premium and product together.

The liquidator's bountiful cousin, the free mail-in offer, raises another issue, notably the relationship of the premium's cost to the amount of retail purchase(s) required to obtain it. Simply put, what does it take to get the consumer to buy, and how does this balance with the dollars the advertiser can afford to spend? This figure has now been on a slight downward trend for four years—from 26 percent of the product's retail purchase price in 1987 and 1988 to 23 percent last year to a present average of 22 percent. Meanwhile, the number of proofs of purchase required of consumers to obtain the premium, after holding at an average of 2.5 for several years, has declined slightly to 2.1.

A somewhat smaller percentage is devoted by the average user to the cost of a factory-pack item. After averaging 17 and 18 percent of the retail purchase price in the past two years, that figure averages 16 percent in this year's survey. The broad range

among these users, however, spans from 4 to 50 percent, with a median of 12.5.

Any of these consumer incentive strategies may be subject to testing before launching a major promotion, if a test method can reasonably duplicate the full-market conditions on a small scale. But respondents cite many reasons for not testing the premium: cost that is considered excessive, inability to match market conditions closely enough, shortage of lead time before a promotion break, unwillingness to expose plans to competitive view—or even, perhaps, a bit of gambler's intuition.

56 percent of marketers who conduct tests prefer consumer interviews.

Any of these reasons may explain the fact that the majority of users do not usually test. The survey finds that 43 percent of the users test their mail-in promotions, and 37 percent test direct premiums.

Item-preference tests are the most common—those that pit a premium against other items in the laboratory or simulated market conditions. Preferably, one item is a control that has been used effectively and provides the benchmark to measure performance of the others.

The most often used testing format? Interviewing consumers, showing them competing items and eliciting opinions and/or indications of intention to buy: 56 percent of respondents who do any testing take this route.

Second choice—more a "laboratory" approach than a market simulation—presents items to a consumer panel. About 28 percent choose this method. A mail offering of the premium is favored by 20 percent, while 16 percent like to use package inserts and another 16 percent favor questionnaires. Fewer than 10 percent indicated they use three other approaches—a store panel test that simulates market conditions; a bounce-back offer mailed with a premium requested by the consumer, or a newspaper split-run ad test in which very similar ads for different items appear in alternate copies of the publication. (The percentages exceed 100 because these marketers use, on the average, more than 1.5 different types of tests.)

The latest survey reveals some good news for test givers. Test accuracy—in terms of forecasting responses to offers—has climbed. The average plus-or-minus variation, which was 22 percent last year and 26 percent for the year prior, has improved to 19 percent. □

RESPONSE RATES

MEDIAN NUMBER OF RESPONSES PER 1,000 ADVERTISING EXPOSURES FOR MAIL-IN OFFERS

	PRINT	BROADCAST	DISPLAY	PACKAGE
▶ Self-liquidator under $10	9	7	20	25
▶ Self-liquidator $10 or more	5	7	10	15
▶ Free mail-in offer	17	10	12	11

EFFECTIVE TECHNIQUES

% OF CONSUMER PROMOTION USERS WHO CONSIDER EACH TECHNIQUE MOST EFFECTIVE FOR REACHING EACH GOAL

	▶ GET SHELF ATTENTION		▶ SELL-IN TO DEALERS		▶ BOOST REPEAT SALES	
BEST	FACTORY-PACK	29%	DIRECT PREMIUM	28%	DIRECT PREMIUM	29%
	DIRECT PREMIUM	21%	SWEEPSTAKES	14%	COUPON PLAN	29%
WORST	FREE-MAIL-INS	1%	ALL OTHERS RATED LOW		FACTORY-PACK	2%
					SELF-LIQUIDATOR	2%
	▶ SALES TALKING POINT		▶ BUILD USER GOOD WILL		▶ GAIN AD READERSHIP	
BEST	DIRECT PREMIUM	21%	DIRECT PREMIUM	28%	FREE MAIL-IN	29%
	SELF-LIQUIDATOR	14%			DIRECT PREMIUM	15%
	SWEEPSTAKES	14%				
WORST	FREE MAIL-IN	7%	FREE MAIL-IN	7%	COUPON PLAN	2%
	COUPON PLAN	0%				
	▶ OBTAIN STORE DISPLAYS		▶ SAMPLE NEW USERS		▶ COST-EFFECTIVENESS	
BEST	DIRECT PREMIUM	29%	FREE MAIL-IN	43%	COUPON PLAN	28%
	SWEEPSTAKES	29%	DIRECT PREMIUM	14%	DIRECT PREMIUM	21%
			FACTORY-PACK	14%		
WORST	FACTORY PACK	0%	SELF-LIQUIDATOR	2%	ALL OTHERS RATED LOW	

How Hospitals Heal Morale

BY REGINA EISMAN

Stricken with an epidemic of worker indifference, hopsitals have begun administering dosages of team-oriented programs and rewards. Officials hope the move will help overcome some demoralizing obstacles:

Specialization. "There are so many specialized groups of employees within a hospital (including nurses, nurses' aides, medical technicians, pharmacists, therapists, orderlies) that they often have difficulty working together as a team and seeing each other's perspective," according to Linda Lancaster, senior vice president of Howard Lancaster Associates, a management consulting firm in Oak Park, Ill.

Lack of respect. For example, "nurses are always going through a professional identity crisis," says Carl Neu, president of Neu and Company, a Lakewood, Colo., management consulting firm. "They have status problems and they don't feel they can control their destiny."

Heavy stress. "When you're responsible for people's lives, it adds a lot of stress to the job," says Ruth Maxwell, marketing director for Katy Medical Center in Katy, Texas. "Stress also is caused by the unpredictability—how many people are going to get sick or have accidents today?"

Work shifts. "One of the most difficult challenges is making the people who work nights and weekends feel that they are part of the institution," Maxwell says. "Communicating to this group becomes harder."

Hierarchal management. While this problem plagues many industries, it can be even more difficult to change the hierarchal structure of hospitals, says Charlotte Dison, R.N., vice president of patient services at Baptist Hospital of Miami. For instance, "many nurses tend to be matriarchal in their management style, mothering their staff rather than encouraging independence," she notes.

Other obstacles to morale include long hours, friction between doctors and nurses, and shortages of medical staff, including nurses, physical therapists, radiologists and pharmacists.

Although these demoralizing problems can affect the quality of patient care, the health-care industry hasn't quite caught up to the rest of the world when it comes to motivating staff. "There are hospitals doing motivation programs, but it's not a widespread practice," Lancaster says. "There are a lot of market pressures on hospitals now, and incentives are needed to improve morale and patient care."

"Hospital workers need to feel that while their contribution may not be exactly the same as the physicians', it's equally important to the overall performance of the hospital," says Neu.

Other consultants agree that there is a need for motivation programs in hospitals, but John Witt, president of the health-care employment company Witt Associates in Oak Brook, Ill., notes that such programs present a common dilemma—developing measurements that accurately gauge the quality of patient care. "Using incentives to improve patient care can be insulting [to employees]," he cautions. "Nurses might resent the attitude of paying her more money because she held her patient's hand more, or giving her a free weekend because she goes around hugging people." Prospective employees should know ahead of time about the hospital's policies so they can decide whether they "buy into its mission," he advises.

The disease: sagging employee morale. The treatment: rewarding workers for making decisions.

Also, hospital management can become caught in a vicious cycle, especially when an incentive program highlights the very causes of low morale. For example, a hospital might have a rigid hierarchy, thus discouraging any moves toward fostering employee decision-making and consequently encouraging feelings of powerlessness and alienation among workers. If the hospital then tries to design a

ILLUSTRATION: TOM BLOOM

worker-involvement program, that hierarchy could present a big stumbling block to its success, since managers could resist handing authority over to subordinates.

While the problems may sound daunting, there are hospitals actively striving to make their facilities better places to work. They are using programs that include quality circles, gainsharing and suggestion systems, all giving workers the chance to earn cash, prizes and internal recognition. These facilities claim to have increased worker morale, improved patient care and yes, improved profits.

Several facilities point to the use of quality circles as a catalyst for improvement. Team efforts have helped lessen both friction among staffers and also workers' feelings that nobody really listens to them, officials claim. "When the employees work together towards a common goal, it's easier for them to see each other's perspective," says Lancaster, whose firm customizes a team-oriented program called "Managaerobics" for hospitals. "And that has impact on patient care." Topics covered in the one- or two-day seminar include establishing accountability, reacting to change, coaching—rather than bossing—employees, and dealing with different behavior styles.

Quality circles help effect a major attitude change in hospital workers, says Alvin Goldberg, co-author (with C. Carl Pagels) of "Quality Circles in Health Care Facilities: A Model for Excellence" and associate director of academic programs in health care administration at the University of Miami. "When you bring people into a circle, they're telling you how to make the company better, and that makes people happier," he notes. Goldberg, who is said to be the first person to have introduced quality circles into a U.S. hospital, started 40 QC's when he was chief executive officer of Mount Sinai Medical Center in Miami Beach.

"Before we had quality circles, our employees were like robots," he says. "There was no eye contact, no smiling. After the first year, people were much more willing to work together, and our productivity (measured in amounts of work done each day—for example, the number of patients seen by a respiratory therapist, or the amount of laundry done) went up by 5 percent," Goldberg says. (The hospital no longer has a QC program, Goldberg notes: Budget constraints cut the training dollars needed for the program, and the current corporate culture doesn't support it. Telephone calls to the hospital were not

LITTLE THINGS CAN MEAN A LOT

Health-care workers are likely to be motivated by large-scale programs such as gainsharing and pay-for-performance—but smaller recognition programs can be just as effective in making workers feel important. "Anything that increases a person's self-respect is a motivator, and often it's the little things, like recognition or a small gift, that count," says management consultant Carl Neu, president of Neu and Company in Lakewood, Colo.

Katy Medical Center in Katy, Texas, claims excellent results from the recognition program it started three years ago. "Our programs have two goals," marketing director Ruth Maxwell says. "We want to be the employer of choice, and we want to be the health provider of choice."

Patients, visitors and fellow employees can nominate workers for a Blue Ribbon by filling out a card describing a service or kindness that the employee performed, Maxwell says. Once the employee gets a blue ribbon, subsequent awards are in the form of gold stars, or "twinkles," attached to the ribbon. An employee with five twinkles gets a permanent gold star, and five permanent stars earn the worker a gold pin.

The workers who have gotten stars, as well as those who have been recommended by their supervisors, are eligible for the employee-of-the-month award: a brass paperweight, $25 retail gift certificate and free parking spot for the month. One of these 12 people will be employee of the year and will receive a $100 gift certificate and a beautiful trophy.

Katy has surveyed both employees and patients on their level of satisfaction with the hospital, and management believes the promising results are due to a combination of the recognition program and the Employee Stock Ownership Plan. More than 80 percent of the employees said that the hospital was well managed, and 74 percent said Katy treats its employees with respect. The hospital also had a 98 percent customer satisfaction rating (the percentage of patients that said they would seek treatment again at Katy), versus its parent company's average of 95 percent.

North Carolina Memorial in Chapel Hill is in its fifth year of the Plus People recognition program, which rewards efforts to improve patient service. A dozen people are selected each quarter through peer and supervisor recommendations. Winners net certificates, pins, internal publicity and a party in their department. At the end of the year, all 48 employees are feted at a dinner theater. "We haven't formally measured results, but we know people appreciate the recognition," says director of human resources Joe Brugnolotti.

St. Joseph Medical Center in Joliet, Ill., also gives monthly and yearly employee awards that include medallions, corsages and a free parking spot for the month. □

"There are so many specialized groups of employees within a hospital that they often have difficulty working together as a team."

returned by press time.)

Goldberg, who also is a hospital consultant, says he has been getting more inquiries from hospitals interested in using QC's, which is "an encouraging sign."

One hospital that recently began using quality circles, Baptist Hospital of Miami, currently has 10 teams working on different issues. One team is working on better defining the nurse's role and figuring out what kinds of work can be delegated to nurses' aides. Other teams are looking at the possibility of converting from an hourly pay system to an annual salary system.

"We needed to attract more nurses, and we started thinking about ways in which we might improve our hospital," Dison says. In addition, when the hospital built a new obstetrics unit with a different design and space configurations than the previous one, "the space was unfamiliar, and we thought quality circles would give the nurses a better sense of control."

Currently, work teams involve nurses in the patient care services division, but the hospital is planning to expand the concept to other areas of the hospital, including surgical care and emergency care nurses and respiratory therapists. In the near future, "we want to link the quality circles to tangible incentives," such as merchandise prizes, Dison adds.

In addition to the work teams, the hospital recently developed a nursing position called "senior partner," which brings with it increased responsibility and the ability to participate in the hiring process. "Most clinical staff have nothing to do with hiring the people they work with, which is unnatural," Dison explains. "Senior partners interview and recommend [to management] the people they will work with." Nurses are promoted to senior partner based on work performance.

A variation on quality circles combines them with a suggestion program linked to rewards, something that Irving, Texas-based Epic Healthcare Group did in 1989 with its Epic Excellence program. Workers in the company's 38 hospitals [which include Katy Medical Center] could join a problem-solving team and received points redeemable for catalogue merchandise if their ideas were approved. Even those whose ideas were not used received small gifts just for submitting them. For 1990, the program yielded $20 million in savings, versus original expectations of $9 million, says company spokesperson Janet Howe.

Because of South Community Hospital's suggestion program, turnover has dropped from 14 to less than 3 percent, and profits have soared.

Because the company is 51 percent owned by its employees, it also has an employee bonus system based on individual hospitals meeting annual financial and quality goals. The company has given out several million dollars in bonuses since the Employee Stock Ownership Plan was formed in 1988.

South Community Hospital in Oklahoma City says it has moved from fifth to second place (in number of patients) among five major hospitals in its market as a result of its three-year-old program. Surveys and focus groups revealed that consumers didn't perceive the hospital as a good place to seek care, and employees were unhappy with the work environment, says vice president of marketing and planning Marshall Poulsen. The hospital developed work teams and pays bonuses for cost-saving suggestions, which have included using a less expensive—but very effective—technology for testing cholesterol, switching from branded intravenous antibiotics to oral generic ones and finding a paint that doesn't chip. Starting this year, if the hospital meets or exceeds its budget, each employee will share in the bounty, up to a maximum of $1,500 or 5 percent of the salary, whichever is greater.

Poulsen says employee turnover has decreased from 14 to less than 3 percent. The first year after starting the program, the hospital had a $7 million increase in profit (although, because the hospital is not-for-profit, the money is plugged back into operations), and increases have been consistent since then.

Employee morale has increased, too, says Poulsen. "We've tried to build more of a family atmosphere," he says. "And we give our employees the comfort of knowing that if they make a decision, we will back them. We're not going to fire anyone for a wrong decision."

Some hospitals link their suggestion programs to gainsharing. Because North Carolina Memorial Hospital in Chapel Hill is a state hospital, it benefits from a policy that allows state agencies to have gainsharing programs. Employees whose suggestions are implemented reap 25 percent of the annual cost savings, up to $5,000. The hospital has saved a substantial amount of money through the program, according to director of human resources Joe Brugnolotti.

The hospital also has an employee forum, consisting of 70 people elected by their peers, that acts as the liaison between workers and senior management. The hospital's new program, Guest Relations, will focus on improving relationships within the hospital, "and we expect that to have an effect on patient care too," Brugno-

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To change nursing managers' nurturing style, Baptist Hospital trained them for three days prior to starting its motivation program.

lotti points out.

Also using gainsharing is St. Joseph Medical Center, a 550-bed hospital in Joliet, Ill., which started a participatory management (PM) program called Franciscan Way (named for the Franciscan sisters who own the hospital) last year. When the hospital held introductory seminars on PM for its 2,200 staffers, employees pointed out improvements that they wanted to see in the hospital. Among them: "They wanted more communication among staff members, they wanted to feel that they were part of a team and they wanted respect," says Barbra LeZotte, who coordinates the program. "We felt that participatory management would address these problems."

Phase one of the program includes twice-yearly employee meetings with an open agenda, and a monthly breakfast, lunch and dinner with the hospital president where up to 30 workers discuss issues of concern. There also are employee committees that tackle various hospital issues. For example, the nurse retention committee "is re-evaluating our benefits package to see if we can make it more attractive," LeZotte says.

The hospital is about to launch phase two, a suggestion program in which workers (including doctors) will receive 10 percent of their ideas' annual cost savings, up to $1,500. Suggestions that don't save money won't be ignored: An idea that improves quality will yield a $50 savings bond, and the year's top three quality-improvement suggestions will get $500 each. All suggesters will get a coffee mug and a note in their personnel file.

In 1991, the hospital will survey all employees to gauge the program's success, and "managers will be held accountable for the responses they can control," LeZotte says. "Obviously, they can't control how an em-

"Before we had quality circles, our employees were like robots. After the first year, people were much more willing to work together."

ployee feels about benefits, but they can control how they feel about other things, like how well participatory management is working."

The employee involvement program at MultiCare Medical Center in Tacoma, Wash., includes MERCI (Medical Excellence Requires Concern for the Individual), which incorporates work teams, and the brand-new Quality Service Standards Initiative. QSSI focuses on treating both patients and peers with respect by improving two areas: The quality of the staff's explanations [i.e., of medical procedures and hospital policies] to patients and to each other, and the timeliness of responses to questions, says Dr. Terry L. Smith, director of organization development.

"Each department will establish its own guidelines, one for internal customers and one for external customers," she says. The guidelines will be linked with an existing pay-for-performance system. The hospital also intends to start a gainsharing program in the near future.

Staff doctors on salary will participate in the program. For attending physicians, who are not employees, "obviously, we can't mandate what to do, but we will educate them about the way we plan to practice medicine here," Smith says.

Of course, incentive and recognition programs don't solve all problems by themselves. Enhanced communication plays a big role, and employee-conscious facilities are honing up these skills as well. To ensure effective communication in spite of constantly changing work shifts, Katy—which, as an employee-owned hospital, communicates financial information each quarter—circulates videos to all departments. The hospital also holds quarterly employee meetings and has an employee ownership committee that helps relay information to all workers. To change nursing managers' nurturing management style, Baptist Hospital trained managers for three days prior to initiating its program, and it conducts ongoing refresher training.

Budgets play a major role in determining the scope of motivational programs. Since Medicaid put a ceiling on insurance reimbursements in 1983, hospitals have been under more strain, notes Poulsen. "Workers are thinking, 'The doctor ordered five tests for this patient,' and they know that the hospital is getting reimbursed for very little of it, that the bottom line and therefore their bonus is being affected. There's not much they can do about it."

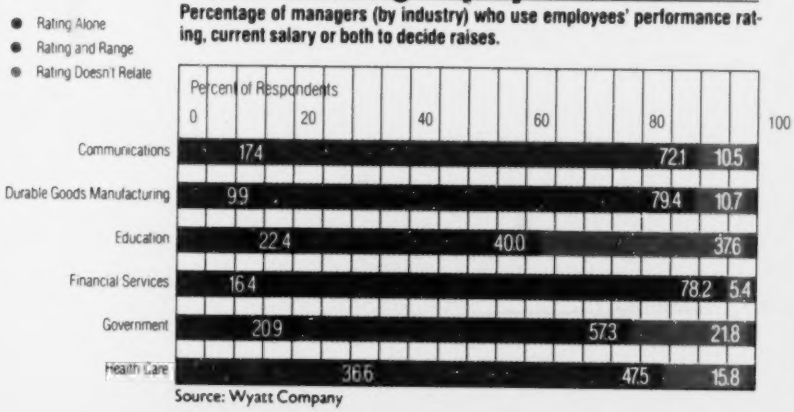
According to the Washington-based Wyatt Company's Performance Management Survey 1989, money was more of a problem for the health-care managers who have implemented performance management programs (defined as a system that uses a set of job standards, links pay to performance, incorporates cash or other rewards and monitors performance on an ongoing basis). When asked about the impediments to a PM program's success, 50.8 percent of the health-care managers said "not enough money," versus 37 percent of all managers. In other categories, however, the health industry was on a par with others—for example, 35 percent of the respondents said there was no objective measurement system; 35.5 percent of the health-care respondents cited this problem.

On a positive note, more health-care respondents said they used performance alone to determine salary increases—36.6 percent, as opposed to 17 percent of all the managers. More than 47 percent of health-care managers used a combination of performance and the employee's current salary range to determine raises, while 71 percent of all respondents used this combination. And when asked about changes being considered in their PM systems, 46.7 percent of health-care executives cited "introduction of incentives," versus 40 percent of all respondents.

Although hospitals may be constrained in raising salaries, several consultants note that people who pursue health careers are not in it for the material gains. "People go into health care for non-monetary reasons," says Sandy Lutz, Dallas bureau chief for Modern Healthcare magazine. "If people are encouraged to be part of a team, they're likely to stay even if the hospital across the street raises salaries." □

Determining Employee Raises

Percentage of managers (by industry) who use employees' performance rating, current salary or both to decide raises.



Source: Wyatt Company

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